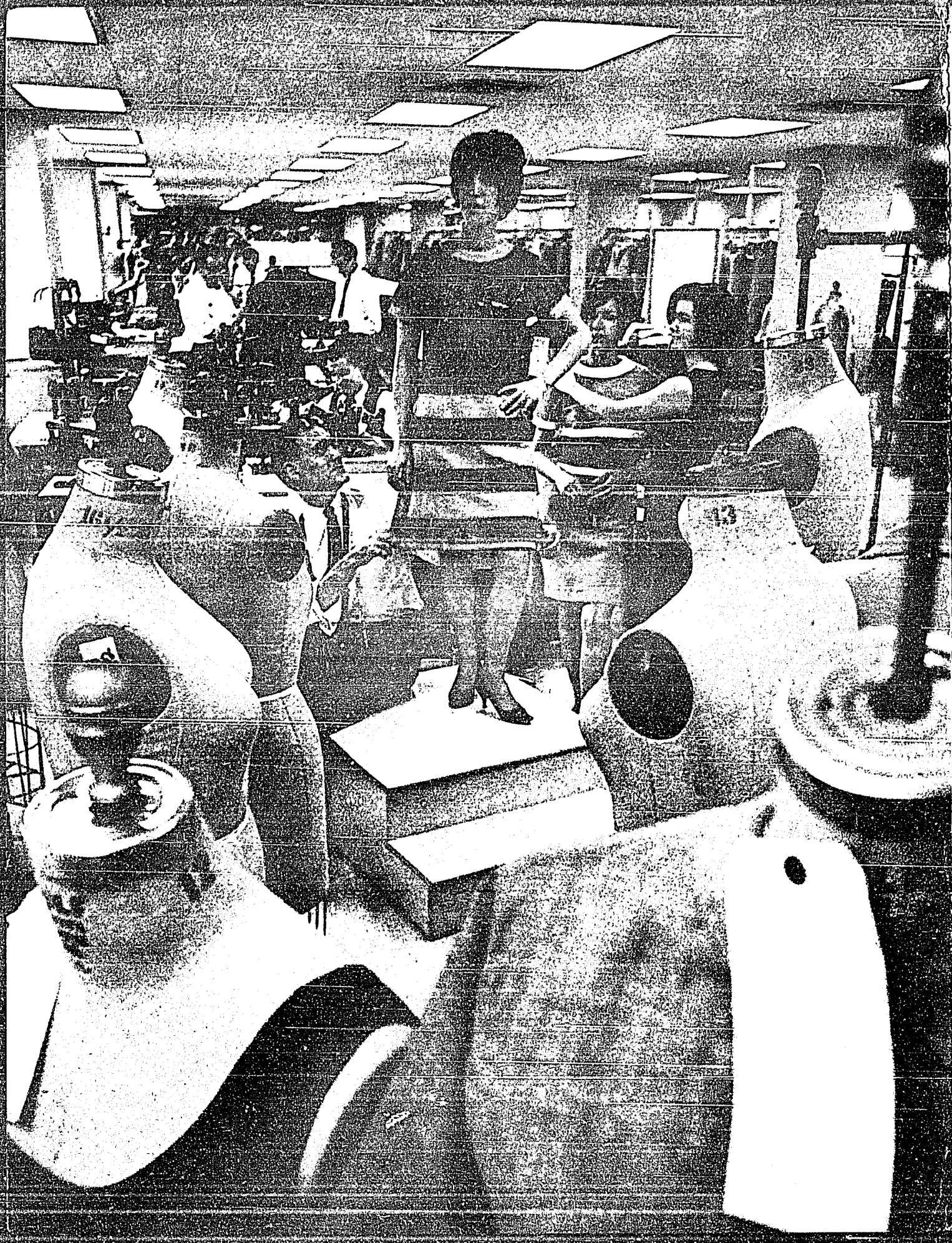


## J.C. PENNEY COMPANY ANNUAL REPORT 1966





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# **PENNEY AND THE CONSUMER**

For over 64 years, J. C. Penney Company has sought to develop customer confidence by offering products that meet sound standards of good value.

This effort has taken many forms. We have placed high priority on controlling the quality of all the goods we sell, both the apparel and other soft goods that have historically been a Penney specialty and the new lines of goods that we have recently brought to our stores.

We have accelerated our product labeling and consumer education programs so that shoppers have helpful information about the products they buy. We believe that the educated consumer is a better customer, and that quality sells goods and keeps them sold.

This philosophy pervades all Penney operations, and it is evident throughout our current expansion program which is taking our stores into new communities. The pages that follow highlight important aspects of both the expansion program and our philosophy.

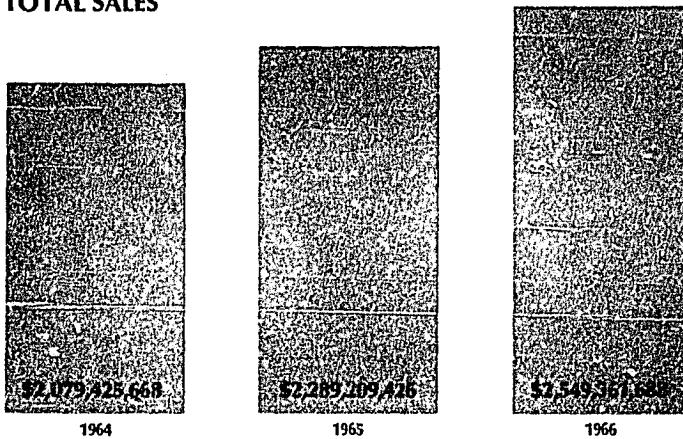
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*LEFT: Quality control is an overriding consideration at Penney's. Here, a Mary Quant dress from our International Designer Collections is checked in Penney's Quality Control Department for proper stitching, size, fabric, and other characteristics.*

*COVER: The pretty girl reflects the growing interest of young people in Penney's. The tag is part of our new inventory control system.*

## TOTAL SALES



## 1966 AT A GLANCE

### FOR THE YEAR

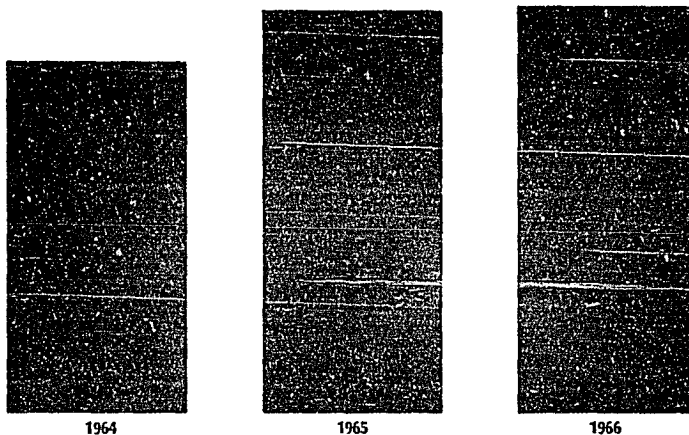
	52 weeks ended January 28, 1967	52 weeks ended January 29, 1966	Year ended January 31, 1965
Sales	\$2,549,361,688	\$2,289,209,426	\$2,079,425,668
Net income	\$79,059,029	\$78,898,254*	\$68,271,402
Dividends paid	\$43,034,146	\$43,034,080	\$37,406,836

### PER SHARE OF COMMON STOCK

Net income	\$3.17	\$3.16*	\$2.74
Dividends paid	\$1.72½	\$1.72½	\$1.50

\*Includes net gain of \$2,840,865, or 11 cents per share, from the sale of Penney's former headquarters building in New York.

## NET INCOME PER SHARE



## TO OUR STOCKHOLDERS

In fiscal 1966, your Company's sales rose 11.4% to a record \$2,549,361,688 from \$2,289,209,426 in fiscal 1965.

Despite a disappointing fourth quarter, the year's net income was \$79,059,029, or \$3.17 a share, compared with \$78,898,254, or \$3.16 a share, in 1965.

During 1966, Penney's raised the regular quarterly dividend from 37½ cents to 40 cents a share, and paid a year-end extra of 20 cents a share. This increased the indicated annual rate to \$1.80 from \$1.72½.

Twenty-four new Penney stores were opened during the year, of which 17 represented relocations of older stores.

We installed catalog order desks in 106 more Penney stores, and opened three free-standing catalog stores and six retail appliance test stores. These six stores have catalog desks.

Penney's expansion program is designed to meet the growing needs and desires of the consumer. We are doing this by providing an increased range of goods, such as appliances, furniture, fashion apparel, and automotive merchandise and service. We are also offering a variety of ways for the customer to purchase these goods, including mail order, telephone order, catalog stores, and charge accounts.

Penney's continues to bring new efficiencies to its operations. We have developed new methods for ordering, acquiring, and distributing goods. And we are using data processing equipment to gather more information about our customers' product preferences.

Our acquisition of two insurance companies is another step in our growth. These companies, which are being renamed J. C. Penney Insurance Company and J. C. Penney Life Insurance Company, provide a base for our entry into the insurance field. Our initial interest is in the marketing of accident and health insurance to Penney customers.

A slowdown in the rate of the economy's growth began to emerge in 1966.

For 1967 forecasters are in agreement only in observing that the slowdown is continuing. Opinion is sharply divided, however, about the severity and duration of the current downward adjustment. Most economists seem to think that the downturn will not reach recession proportions and that the level of business activity will start to improve during the latter part of 1967. Based on this assumption, sales of general merchandise and apparel are expected to increase again this year. However, the outlook for retail profits is more uncertain because of increasing costs, particularly wages and salaries and payroll taxes.

Disposable income is expected to continue at a high level, and, hopefully, consumer confidence will improve during the year. Faced with rising prices and higher taxes, consumers can be expected to budget more carefully and to stress dollar value more emphatically. This should strengthen our competitive appeal.

While we anticipate a sales increase for 1967, we realize that higher operating costs and added expenses in connection with our accelerated expansion program present a real challenge in the maintenance of profit margins. The Company is responding with a strenuous effort to further its cost control and inventory management programs.

We wish to thank our customers, suppliers, and associates for their trust and their contributions to our results in 1966.

With our Company's many assets, its reputation, customer acceptance, organization, and plans, we look to the future with confidence.

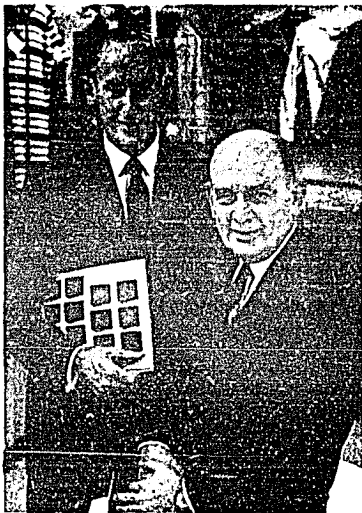
*William M. Batten*

Chairman of the Board

*Ray H. Jordan*

President

March 23, 1967



Chairman William M. Batten, right,  
and President Ray H. Jordan.

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# **PENNEY**

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## **AUTO**

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## **CENTERS**

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Penney's opened its first Auto Service Center in Melbourne, Florida in August 1963.

At that time the automobile population of the country was approximately 69 million cars. By 1970, it is expected to grow to some 83 million cars.

Since 1963, we have put 111 Penney Auto Centers into operation, including 27 opened in 1966. There are 48 more planned for opening in 1967.

Today, automotive merchandise carrying our Foremost brand includes tires, batteries, air conditioners, safety equipment, seat covers, motor oils, radios, and tape decks.

An important move in the development of Penney's Auto Centers came in 1964 when the Company began to market Penney-brand gasoline. At year-end, 38 Penney Auto Centers were selling our gasoline. They feature a five-grade blending pump to provide gasoline value and economy.

In line with our goal of providing greater customer service as well as broad lines of merchandise, Penney Auto Centers also offer auto repairs ranging from tuneups to transmission installations.

Our 100th Auto Center was opened last September in Richmond Heights, a suburb of Cleveland, Ohio. In addition to 14 service bays, gasoline pumps, and automotive merchandise displays, this unit features a 52-foot Diagnostic Center that performs electronically 212 tests of each car's safety and performance.

In the Diagnostic Center, Penney technicians hook up the customer's car to a battery of testing devices, many of them developed as a result of the experience of our Company's service teams. Results of these tests are fed into

the Center's electromagnetic typewriter, and the customer, standing nearby, reads the report on the car's condition as it is typed out. We plan to open 17 new Diagnostic Centers in 1967.

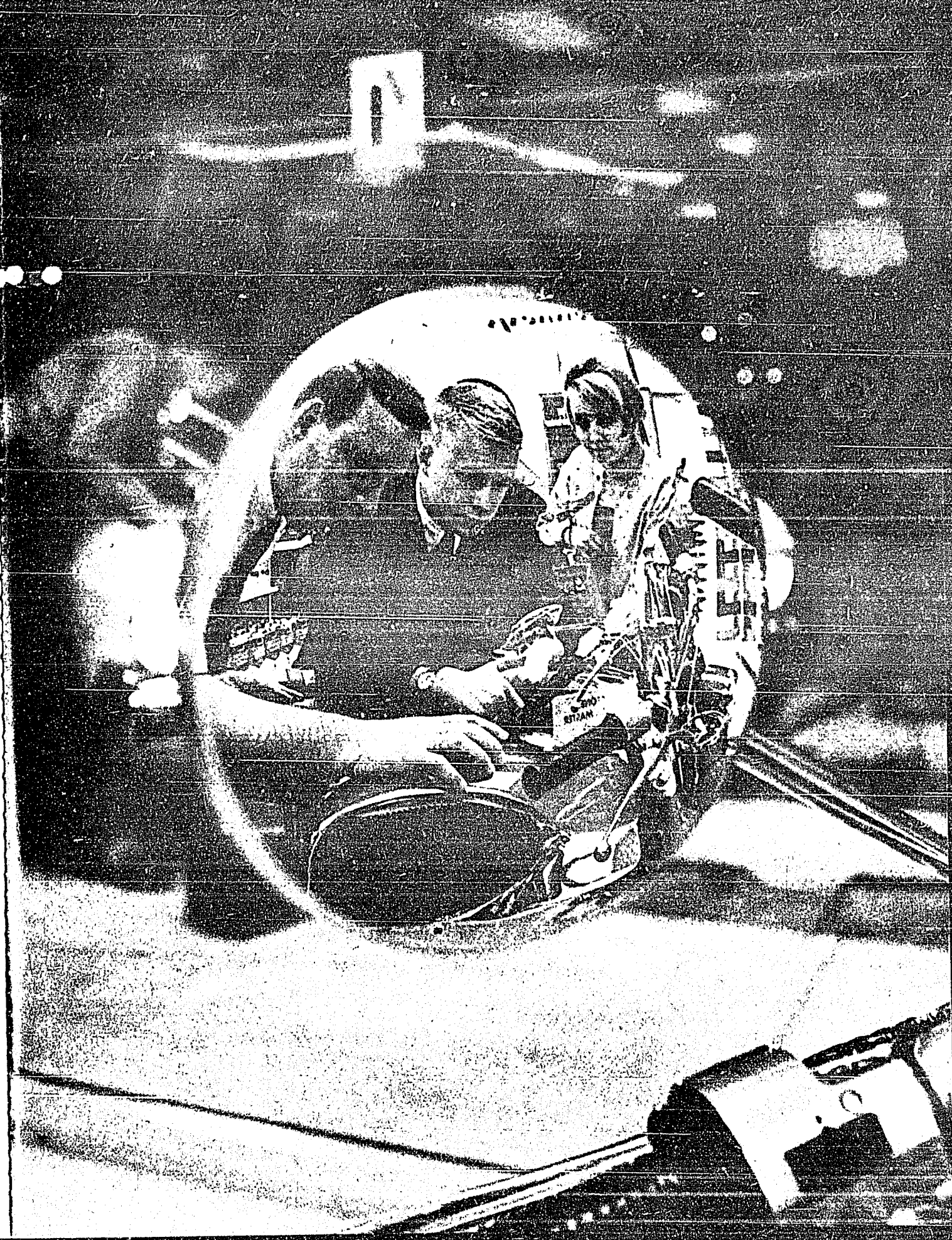
Penney Auto Centers are also an important attraction to younger customers. Our custom auto accessories are not only stylish but they also meet the Company's standard of good quality. Our auto tape decks and magnesium wheels provide an individual air, and they are checked by Penney technicians in our Merchandise Testing Center.

The range of accessories and services offered at Penney Auto Centers includes many suggested by Penney people as a result of their daily dealings with our customers. Among these goods and services are a compact safety kit that contains a fire extinguisher, flare, and first-aid kit; a universal slip-on head rest for auto seats; and a free, 25-point safety inspection service available to all customers.

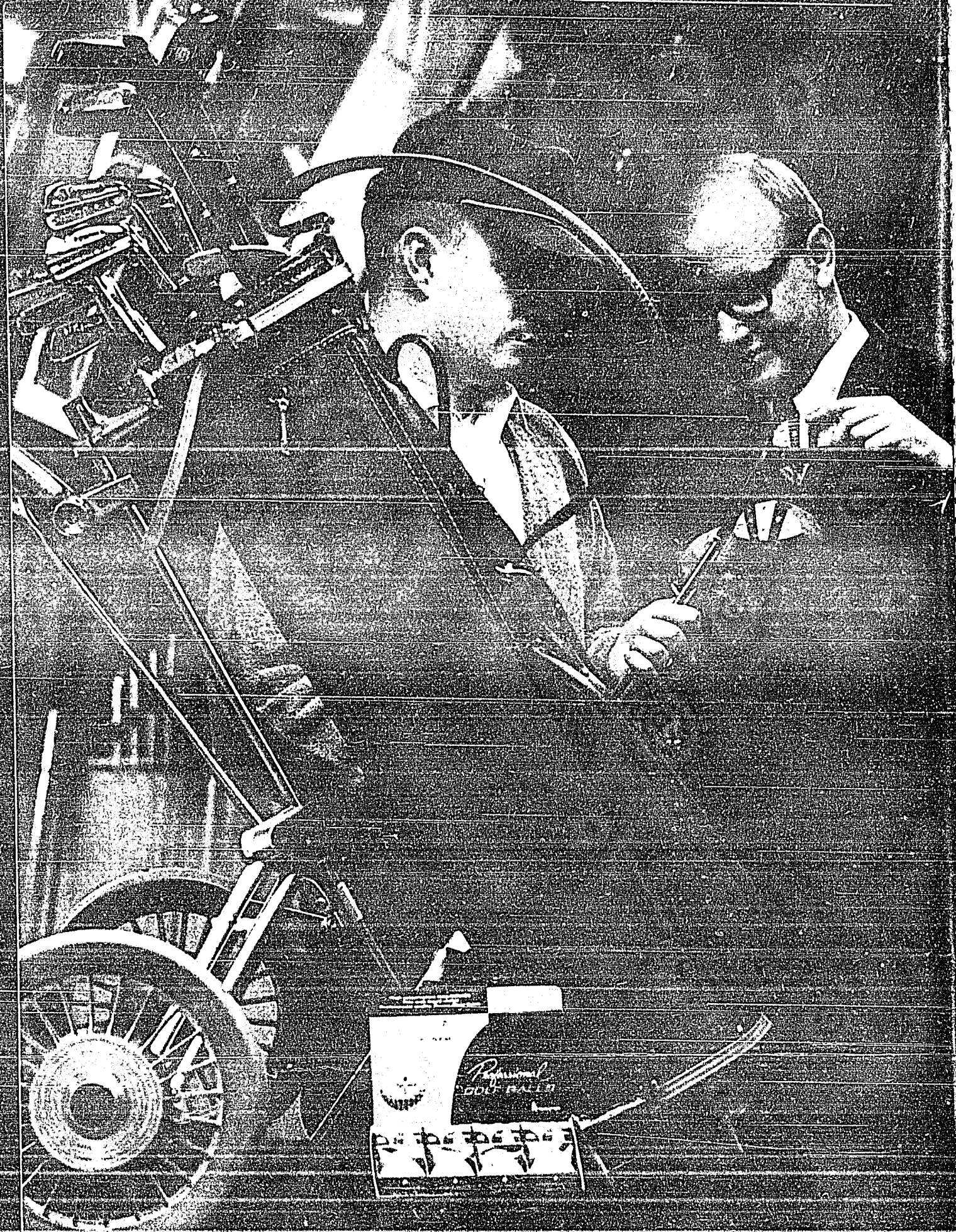
Auto Centers represent an important step in the Company's development into a full-line merchandise operation. They are popular with customers and contribute to Penney's profits. Auto Centers are planned for most new Penney stores.

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*Sales of automotive merchandise and services are growing fast at Penney's and producing profits. Services include tuneups such as the one in progress in the Niles, Illinois, Penney Auto Center pictured. We sell a broad range of auto accessories and related items. Many of these have strong appeal to young customers.*



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## **EXPANDING PRODUCT LINES**

Expansion into new merchandise lines continued in 1966. Sleep shops featuring beds, bedding, and related items were added to 24 stores, bringing the total number of stores offering these lines to 162 by year-end.

Major appliances were introduced in 29 stores, raising the total to 174. Twenty more floor-care departments were opened, for a total of 438. Sporting goods were introduced in 32 stores, bringing the total to 141.

The addition of new lines, such as major appliances, has meant expansion in the size of new stores we are building. Most of the larger, new stores also feature new services such as beauty salons, restaurants or snack bars, and portrait studios.

Many of the new product lines were developed by Penney buyers working closely with manufacturers.

Although our soft lines continue to account for the bulk of our business, the new merchandise categories are playing an increasingly important role both in providing broader selection for present customers and in attracting new customers to our stores.

Offerings of fashion apparel are being broadened. A number of Penney stores now feature our Young International Designer Collections, which include designs by Mary Quant of England and Ariel and Victoire of Paris. Many of these items are available in our catalog as well.

In addition, we are expanding in related areas, such as jewelry, cosmetics and beauty aids, and interior decoration services.

Men's and boys' departments are also meeting the needs of their fashion-conscious customers. The Young Gentry Shops and Boys' Prep Shops in our larger stores highlight this trend.

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*Sporting goods are one example of our expanding product lines. These golf balls bear Penney's Foremost label. So does the golf cart (that's our new, stylized "P" on the hub cap). Most of our new lines bear our own labels.*

Penney's new hard goods items range from phonograph records to power tools, TV sets to furniture, electric toothbrushes to home freezer units. The bulk of these, made to our specifications by major manufacturers, carry the Company's own brand names. In hardware lines, some 85% of the 5,200 items carried bear the Penncraft label.

Hard lines continue to be a growing area for Penney's. About one-third of the space in new stores is allocated to this type of merchandise. Also, about one-third of the Penney catalog is devoted to hard goods. However, because of the parallel expansion in our soft goods sales, and because we are still in an early stage of hard-line development, hard goods represent less than 10% of total sales.

This spring, Penney's offers a new line of gas and electric ranges, refrigerators, freezers, television sets, and sewing machines bearing our Penncrest label. We are also offering new garden items, from fertilizers to ride-on power lawn mowers, and a new assortment of furniture bearing our Fashion Manor label.

Penney's sells more than 80% of its merchandise under its own brands and labels.

## **EXPANDING CUSTOMER SERVICES**

The increasing acceptance by customers of our credit services is evidenced by the fact that approximately \$900 million of merchandise was purchased through our credit plans in 1966. This was an increase of 18% over credit sales the prior year.

An important feature of Penney's credit system is its "single billing" concept. Our charge card enables a customer to shop in any Penney store in the country. A single monthly statement includes purchases charged in all stores as well as any catalog purchases charged during the month.

Our Company sent out its first Penney merchandise catalog in 1963. Initially, catalog sales were concentrated in six Midwestern states, but by the end of 1966 there were 554 catalog desks in Penney stores in 24 states. By year-end there were also 11 telephone order centers located in key metropolitan markets.

Our catalog customers are currently served by a 2,000,000-square-foot distribution center in Milwaukee. However, Atlanta and Dallas editions of the Penney catalog were issued for the first time in 1966 to pave the way for expansion into the South and Southwest.

There are 108 catalog desks in our stores in the South and Southwest. Planning is under way for a large distribution center in Atlanta. It will be automated, as is the one in Milwaukee. Start of construction has been deferred to provide more time for development of plans and specifications and further refinement of systems.

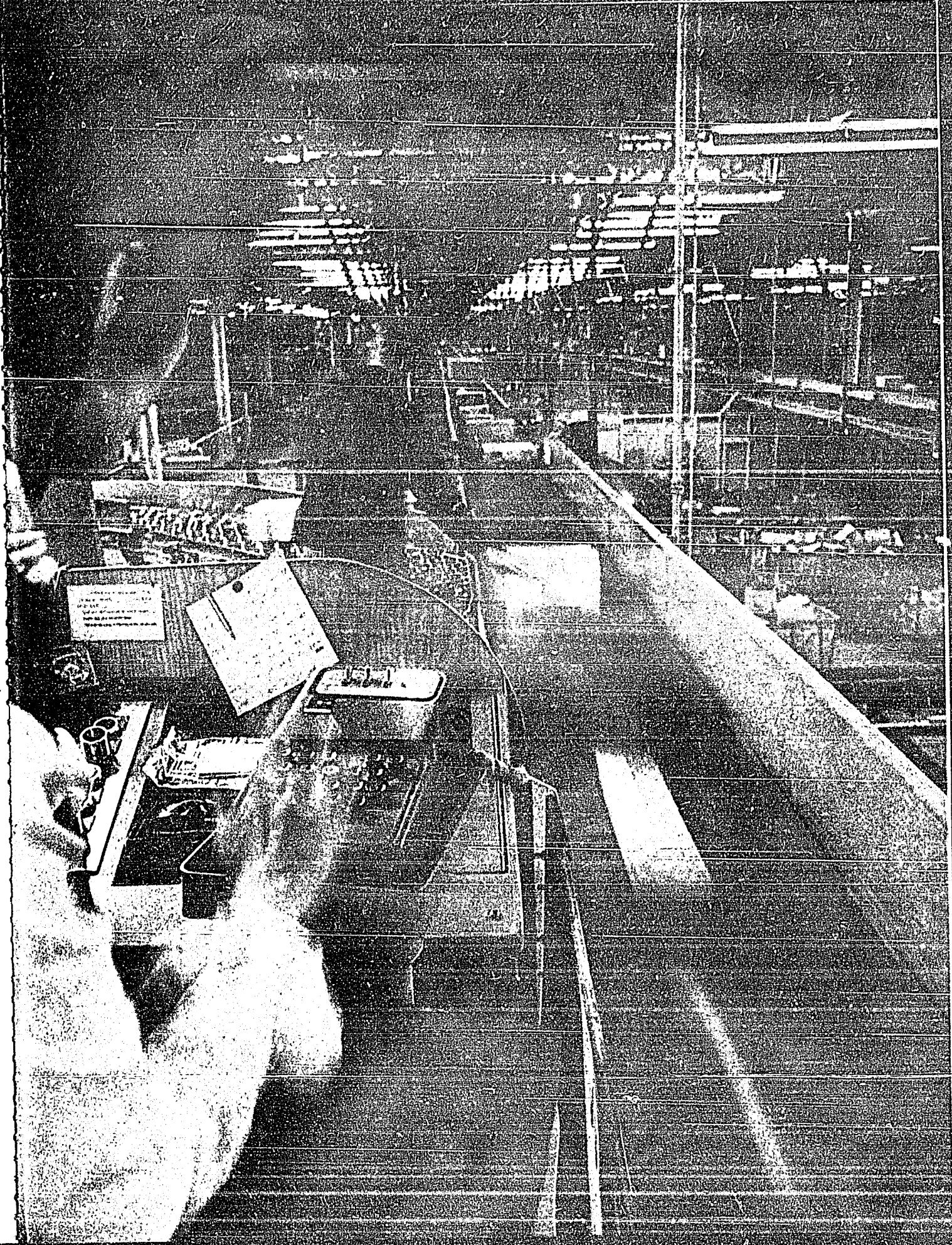
Publication of the Atlanta and Dallas editions of the catalog was the begin-

ning of our effort to build customer acceptance in new geographic areas before the opening of a new distribution facility. This pre-building of customer acceptance is expected to bring a larger initial volume of business for the Atlanta center.

Meanwhile, catalog customers in the South and Southwest are receiving merchandise from the Milwaukee center. Shipping charges, however, are computed only from Atlanta or Dallas. We are using "break-bulk" air freight and truck shipments from Milwaukee. Under this system, shipments of full loads are transported to central points where they are broken down for forwarding to individual stores and customers.

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*Penney's catalog distribution center in Milwaukee covers 2,000,000 square feet. This high-speed conveyor for packaged shipments enables Penney people at the center to fill orders rapidly and efficiently.*





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# **PRODUCT TESTING AND DEVELOPMENT**

"Always First Quality" has been a merchandise standard at Penney's for many years.

To ensure first quality, specialists in the Merchandise Testing Center and in the Quality Control Department at our New York headquarters perform a variety of tests, inspections, and design studies. Many of these tests simulate in-home conditions to make sure merchandise does what the customer expects it to do—and what we say it will do. We also test for safety characteristics, such as resistance to fire, and general features, such as strength and durability.

This dedication to quality has been sustained with our growth into new lines of merchandise. The Testing Center now includes, for example, a closed-circuit television station that provides signals in both color and black-and-white to help our technicians check the quality and performance of samples of sets sold in our stores.

Achieving quality at Penney's goes beyond checking goods produced by manufacturers. Our buyers work closely with many manufacturers to develop new and improved products to meet customer preferences. Our Merchandise Testing Center weighs proposals for new products as well as checking product performance, while our quality control specialists inspect products during and after production in manufacturers' plants.

Many of the items we sell in our stores and catalogs are made to detailed specifications worked out by our buying and design staffs. These specifications include details such as stitching, materials used, packaging, and size. In addition, our quality control technicians often visit the plants of our suppliers to help

formulate new quality control procedures and search for new ways to help the manufacturers meet our rigid specifications.

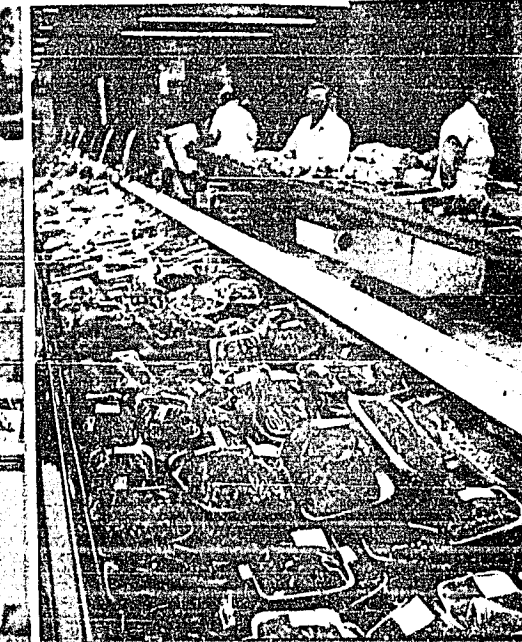
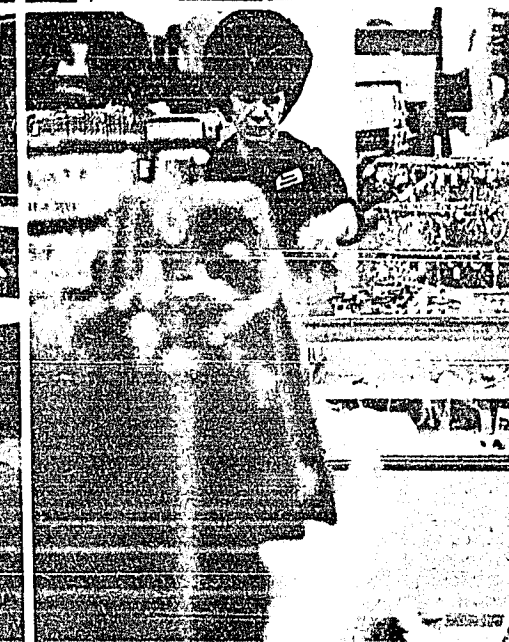
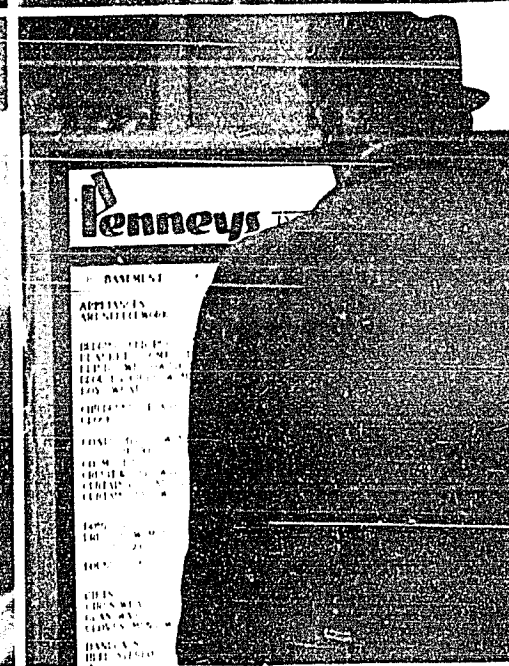
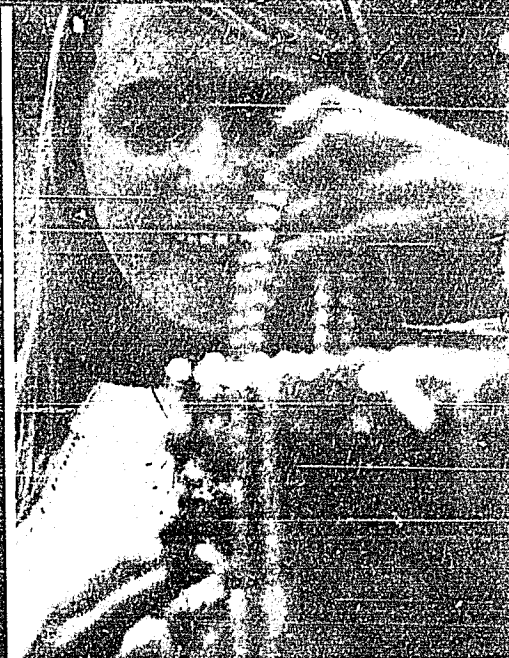
Our design work has ranged from developing a good fit for basic garments such as men's trousers to contributing to the development of "permanent-press" garments. Our research and development work in the latter area brought "Penn-Prest" trousers to Penney's customers. Now, "Penn-Prest" covers broad ranges of merchandise such as men's and boys' shirts, curtains and draperies, and children's apparel. We were one of the first major retailers to offer this apparel feature.

The emphasis we place on assuring that goods fit the uses for which our customers purchase them goes beyond the item itself. It extends to the information provided on labels and tags, and the boxes and packages our goods are sold in. The results of the performance tests worked out in the Testing Center are the basis for labeling as to product characteristics and care.

Penney's Educational and Consumer Relations Department supplements this information effort with consumer buying guides developed with the help of our buyers. These guides, along with teaching materials on consumer education, are used by more than 35,000 home economics educators in junior and senior high schools and extension service programs of land-grant universities. They are designed to help consumers learn more about products so they can make intelligent buying choices.

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*Technicians in our Merchandise Testing Center in New York City evaluate many of the products we sell. Here, fabric is examined after a garment has been carefully taken apart. Other specialists test strength, color fastness, durability, and other characteristics.*



## **PENNEY DEVELOPMENT**

Penney's added 3,788,000 square feet of store and stockroom space in 1966. This translates into:

- Seven new stores totaling 1,255,000 square feet;
- Seventeen relocated stores totaling 1,480,000 additional square feet;
- Forty store expansions; 27 new auto centers; six new retail appliance test stores with catalog desks; three free-standing catalog stores; and three new common stockrooms for stores.

Some of our planned expansion for 1966 was delayed toward the end of the year as developers felt the impact of tight money and material and labor shortages. As a result, some stores scheduled for 1966 will be opened this year.

Fifteen stores, having a total of 126,000 square feet of space, were closed during the year.

At the end of 1966, Penney's store space exceeded 50 million square feet.

In 1967 Penney's plans to open 16 new stores and relocate 22. Also, we expect to expand 14 stores and add about 75 catalog desks. Present plans call for the addition of approximately 5 million square feet of store space in 1967.

Developing and overseeing our store building program is the responsibility of the Real Estate and Store Planning Divisions. Activities of these groups include initial economic studies to locate potential new markets, site studies, traffic engineering studies, architectural design of new stores, site acquisition, construction supervision, and design and installation of store fixtures.

Clustering of stores in selected major metropolitan markets represents one avenue to more efficient operations in our expansion program. Placing several

stores in a single area provides opportunity for group management, sharing of advertising and promotion costs, and use of a common stockroom.

For example, in Phoenix, Arizona, we are currently expanding two existing stores into full-line department stores and building two more large stores plus a 195,000-square-foot common stockroom. When this construction is completed, our store and stockroom space in the Phoenix area will total some 1 million square feet.

Last year we opened in the metropolitan Milwaukee area six test stores that sell appliances and other hard-line merchandise. Some of these units supplement sales of Penney's stores nearby, while others bring our Company into new neighborhoods. All of these units have catalog desks.

Milwaukee is also the location of three Treasure Island stores, which we have been operating as "retailing laboratories." A fourth Treasure Island store is under construction there. These stores, together with comparable Treasure Island units in Madison and Appleton, Wisconsin, test new selling techniques and evaluate new retailing ideas. They sell merchandise under their private label and other brands. They feature innovations for our Company such as grocery store departments, and provide supermarket-type checkout systems for soft goods, hard lines, and food.

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*Penney's large new stores are being designed to offer customers new merchandise lines, such as fashion goods, jewelry, cosmetics, furniture, and musical instruments. The stores provide new services such as beauty salons. And in Wisconsin, five Treasure Island stores—a retail experiment with Penney's—have food supermarkets in them.*

## **TECHNICAL AND DISTRIBUTION SERVICES**

Penney's established a new corporate department, the Technical and Distribution Services Department, in 1965 to encompass our data processing and distribution services.

These activities have grown steadily. New data processing applications, for example, include new developments such as mailing computer tapes to suppliers containing instructions for orders, labels, shipping, and billing. Among new distribution techniques developed during 1966 were cost-saving shipping methods and new ways of distributing Penney's catalog.

Our method of ordering and keeping track of basic merchandise in our stores is called Semi-Automatic Stock Control. More than \$800 million of our sales in 1966 represented goods handled under this data processing system, and the volume is expected to grow to \$1 billion or more in 1967.

Ready-to-wear goods are handled under another data processing system. Women's dresses, coats, and suits are already part of this system, and more lines are being added to it.

Our computers also provide buyers and merchandising specialists with up-to-date information on volume and style trends, increasing the knowledge with which buyers are able to respond to changing market conditions.

All this is in addition to the use of data processing for accounts receivable, recording inventory changes, and other accounting procedures.

In the Catalog Division, computers are being used for a number of advanced purposes. At the Milwaukee data center, for example, computers provide inventory control, process orders, main-

tain customer histories, and provide management with analysis reports on catalog operations.

The Technical and Distribution Services Department has two main computer installations, one in New York and the other in Los Angeles. The two are connected by leased lines to share work loads and backstop each other in times of temporary interruptions of service.

To further speed the movement of Penney merchandise to customers, Technical and Distribution Services this year will begin operating two new distribution centers. In Memphis, Tennessee, an 80,000-square-foot hardware distribution center will provide paint and hardware to all Penney stores carrying these items. In Buena Park, California, a 750,000-square-foot general distribution center will provide a common stockroom facility and other services for the 50 stores in metropolitan Los Angeles. It will also supply fashion apparel to Penney stores in the West.

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*These women are arranging merchandise tags sent in from Penney's stores in 49 states. These packets are then readied for our data processing machines, where sales are recorded, inventories checked, and a vast quantity of merchandise information prepared for Penney's buyers and merchandise managers.*



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## **REVIEW OF OPERATIONS**

### **Insurance Acquisitions**

During 1966, we arranged for the acquisition of two insurance companies, Beneficial Fire and Casualty Insurance Company and Vermont Accident Insurance Company. This acquisition was completed on February 1, 1967, for a purchase price of about \$6.7 million in cash. Almost all of this amount was represented by cash and marketable securities held by the two acquired companies. The names of the two companies are being changed to J. C. Penney Insurance Company and J. C. Penney Life Insurance Company, respectively. Beneficial Standard Life Insurance Company, previous parent of the two acquired companies, has agreed to furnish technical assistance in handling the business to be developed by our insurance operation. It has also agreed to reinsure part of the business to be written by the acquired companies. Penney's initial interest is in the marketing of accident and health insurance.

Arthur Jacobsen, the Company's treasurer, was named to the additional post of president of the two insurance companies.

Thomas J. Spenker, who has had management experience in all phases of insurance, was named executive vice president of the two insurance subsidiaries. Mr. Spenker's career has included responsibility for establishing claims and underwriting policy for all lines of insurance and directing life and health insurance activities.

### **J. C. Penney Credit Corporation**

This subsidiary, which purchases customer receivables from the parent company, increased its activities in 1966.

Total receivables purchased from Penney's in 1966 rose to \$987,536,909 from \$775,852,543, reflecting the parent's increasing credit business. At year-end the subsidiary owned \$439,941,357 of customer receivables.

Net earnings of the Credit Corporation rose to \$5,723,143 from \$2,824,736 in 1965. These earnings reflect monthly charges to the parent company to cover the Credit Corporation's fixed charges, which consist chiefly of interest. The parent company bears its own costs of administering its retail credit activities,

and income of the credit subsidiary does not include any service charges paid on customer accounts.

In February 1967, the Credit Corporation sold \$50 million of 5<sup>3</sup>/<sub>8</sub>% debentures maturing in 1987. Proceeds of the issue will expand the Credit Corporation's ability to purchase the parent company's customer receivables.

### **Personnel Changes**

The following executive changes were made effective March 1, 1967:

Cecil L. Wright, vice president and general sales and merchandise manager, was promoted to executive vice president.

Oakley S. Evans, vice president and director of real estate and store planning, was named to the new position of director of corporate development. He retains the rank of vice president.

Kenneth S. Axelson, vice president and director of finance, became director of finance and administration. He continues as vice president.

Five new vice presidents were elected. They are William K. Barry, general merchandise manager—soft lines; Woodrow P. Campbell, director of technical and distribution services; Lee S. Moore, sales manager; Walter J. Neppi, general merchandise manager—hard lines; and Donald V. Seibert, director of catalog sales and operations.

## **FINANCIAL REVIEW**

### **Sales**

Penney's volume for the fiscal year ended January 28, 1967, rose 11.4% to \$2,549,361,688 from \$2,289,209,426 in fiscal 1965. The increase reflected both increased store space in operation and continued improvement of volume in existing units and catalog operations. It was the 12th straight year of sales gains.

### **Net Income**

Net income for 1966 was \$79,059,029, or \$3.17 a share, against \$78,898,254, or \$3.16 a share, the prior year.

Earnings in the fourth quarter were disappointing. Principal contributing factors were increased markdowns in both store and catalog operations, as well as added cost pressures, chiefly

wages and salaries. Markdowns were particularly heavy in fashion apparel and winter-type merchandise. There was an upward trend in wages and salaries as well as adjustments because of minimum wage legislation.

Offsetting these adverse factors was a downward adjustment of the allowance for doubtful customer accounts. This was due to a revision in the rate used to determine such allowance, originally adopted in 1958 at the inception of credit selling. This revised rate more nearly coincides with the Company's actual loss experience. This adjustment amounted to about 8 cents per share.

As previously reported, the 1965 profit included a non-recurring gain of \$2,840,865, or 11 cents a share, from the sale of the Company's former headquarters in New York.

**Federal Tax Rate**

The effective Federal income tax rate for 1966 for the Company and J. C. Penney Credit Corporation together was 46.1%, against 46.4% in 1965. Investment tax credit in 1966 was \$2,424,000, against \$2,305,000 the prior year. Taxes other than Federal income taxes totaled \$35,942,285 against \$29,302,053 in 1965.

**Capital Expenditures**

Capital expenditures in 1966 amounted to \$70.8 million, up from \$45.8 million the prior year. The increase reflects the Company's ongoing expansion program and includes the purchase of land for future store and common stockroom sites and the construction of store buildings. Where the opportunity exists, and a lower occupancy cost results, we erect our own buildings instead of leasing new stores. Leasing will continue to play an important role in our expansion program, including the possibility of selling and leasing back certain Company-owned properties.

Expenditures in 1967 are expected to rise to the neighborhood of \$100 million as a result of adding approximately 5,000,000 square feet of store space, the purchase of additional land, and the construction of Company-owned stores.

Expenditures by landlords on Penney stores during 1966 were approximately \$51 million, against \$32 million in 1965.

This figure is expected to increase substantially in 1967.

**Credit Operations**

Credit sales in 1966 amounted to 35.1% of total sales, compared to 33.1% the prior year. Net customer receivables at January 28, 1967, totaled \$452.4 million, an increase of \$90.7 over the prior year-end. We continue to finance our growing customer receivables through J. C. Penney Credit Corporation.

While our credit operation has not reached the break-even point—in terms of service charge income related to administrative cost—it continues to receive increasing customer acceptance. The number of customer accounts with outstanding balances rose nearly 17% over 1965, reaching a total of approximately 6.8 million accounts at year-end. Average customer account balance was \$68 compared with \$62 a year ago.

There are two ways a Penney customer may use his credit privileges: regular charge account and time payment plan. Both require monthly payments. The majority of our credit sales come about through our regular charge account; the time payment plan is generally used for major purchases such as appliances and television sets.

Administration of our credit sales activity is handled through 11 regional credit offices, each with its own data processing system. This enables the Company to update customer balances daily, greatly facilitating control.

**Source and Use of Funds**

(In Millions)

	52 Weeks Ended	
	January 28 1967	January 29 1966
<b>Funds were made available from:</b>		
Net income . . . . .	\$ 79.1	\$ 78.9
Depreciation . . . . .	23.4	19.6
Disposals of properties . . . .	.4	2.9
Other . . . . .	.5	1.4
Total . . . . .	<u>\$103.4</u>	<u>\$102.8</u>
<b>Funds were used for:</b>		
Cash dividends . . . . .	\$ 43.0	\$ 43.0
Capital expenditures . . . . .	70.8	45.8
Increase in equity in J. C. Penney Credit Corporation	5.7	2.8
Change in working capital . .	(16.1)	11.2
Total . . . . .	<u>\$103.4</u>	<u>\$102.8</u>

**J.C. PENNEY  
COMPANY AND  
CONSOLIDATED  
SUBSIDIARY  
STATEMENT OF  
INCOME**

	52 weeks ended	
	January 28, 1967	January 29, 1966
Sales .....	\$2,549,361,688	\$2,289,209,426
Costs and expenses (note 2) .....		
Cost of merchandise sold, selling and general expenses .....	2,232,911,936	2,006,223,802
Rents (note 3) .....	69,588,351	62,622,710
Maintenance and repairs .....	7,119,819	6,481,309
Depreciation .....	23,452,558	19,578,803
Interest, principally discount on receivables sold to J. C. Penney Credit Corporation .....	31,952,677	15,906,069
Company contribution to retirement plan (note 4) .....	12,751,776	12,658,027
Taxes, other than Federal income taxes .....	35,942,285	29,302,053
Federal income taxes .....	62,306,400	63,204,000
Total costs and expenses .....	<u>2,476,025,802</u>	<u>2,215,976,773</u>
Income before subsidiary company .....	73,335,886	73,232,653
Net income of J. C. Penney Credit Corporation after Federal income taxes of \$5,280,000 and \$2,600,000 .....	5,723,143	2,824,736
Gain on sale of headquarters building after Federal income taxes of \$860,700 .....	<u>—</u>	<u>2,840,865</u>
Net income .....	<u>\$ 79,059,029</u>	<u>\$ 78,898,254</u>
Per share of common stock .....	<u>\$3.17</u>	<u>\$3.16</u>

**STATEMENT OF  
RETAINED  
EARNINGS**

Retained earnings at beginning of year .....	\$ 397,628,515	\$ 361,764,341
Net income for the year .....	79,059,029	78,898,254
Deduct dividends—\$1.72½ per share .....	43,034,146	43,034,080
Retained earnings at end of year .....	<u>\$ 433,653,398</u>	<u>\$ 397,628,515</u>

See notes to financial statements on page 20.

**J.C. PENNEY  
COMPANY AND  
CONSOLIDATED  
SUBSIDIARY  
BALANCE SHEET**

	January 28 1967	January 29 1966
<b>ASSETS</b>		
Current assets		
Cash .....	\$ 54,058,831	\$ 49,587,163
Receivables, less allowance for doubtful accounts of \$13,991,320 and \$15,068,082 .....	463,730,930	373,080,537
Less net amount sold to J. C. Penney Credit Corporation .....	439,941,357	298,672,486
	23,789,573	74,408,051
Merchandise, at lower of cost or market determined mainly by the retail method ....	475,434,563	384,478,234
Prepaid expenses .....	10,278,029	9,410,452
Total current assets .....	563,560,996	517,883,900
Investment in J. C. Penney Credit Corporation, at equity in net assets (note 1) ...	59,740,932	54,017,789
Property and equipment, at cost		
Land .....	19,011,895	8,309,298
Buildings, less depreciation of \$5,607,843 and \$4,396,869 .....	46,463,187	28,901,073
Furniture and fixtures, less depreciation of \$117,747,244 and \$104,605,937 .....	112,791,603	96,934,065
Improvements to leaseholds, less amortiza- tion of \$5,502,055 and \$5,544,687 .....	13,896,239	11,089,667
	192,162,924	145,234,103
Deferred charges .....	2,016,615	2,022,053
	\$817,481,467	\$719,157,845

**LIABILITIES**

Current liabilities		
Accounts payable and accrued liabilities .....	\$218,165,110	\$178,326,199
Due to J. C. Penney Credit Corporation .....	19,997,541	—
Dividends payable in February .....	14,968,331	14,968,331
Federal income taxes		
Current .....	25,051,718	34,889,431
Deferred, applicable to installment sales ...	55,800,000	44,000,000
Total current liabilities .....	333,982,700	272,183,961
Deferred Federal income taxes, applicable to depreciation .....	10,500,000	10,000,000
Stockholders' equity (note 5)		
Common stock, par value \$1		
Authorized, 27,000,000 shares		
Issued, 24,947,219 shares .....	39,345,369	39,345,369
Retained earnings .....	433,653,398	397,628,515
Total stockholders' equity .....	472,998,767	436,973,884
	\$817,481,467	\$719,157,845

See notes to financial statements on page 20.

# NOTES TO FINANCIAL STATEMENTS

## J. C. PENNEY COMPANY AND CONSOLIDATED SUBSIDIARY

1. The consolidated financial statements include the accounts of J. C. Penney Company and J. C. Penney Properties, Inc., a wholly owned real estate subsidiary. The financial statements for the preceding year have been restated to include the accounts of J. C. Penney Properties, Inc., which at that time was not consolidated, but carried as an unconsolidated subsidiary at equity in net assets. The balance sheet of J. C. Penney Credit Corporation, a wholly owned finance subsidiary which derives substantially all its revenues from J. C. Penney Company, is presented separately.

On February 1, 1967 the Company acquired a life insurance company and a casualty insurance company for \$6,690,235 cash; the underlying net equity of these companies at that date was \$6,290,235.

2. The Company's costs and expenses as reported to the Securities and Exchange Commission are summarized as follows:

	52 weeks ended	
	January 28, 1967	January 29, 1966
Cost of goods sold, occupancy, buying, and warehousing costs .....	\$1,841,793,697	\$1,668,618,272
Selling, publicity, general and administrative expenses, other than items included in costs, less service charges on customers' accounts .....	538,090,433	463,774,820
Interest, doubtful accounts, miscellaneous income and other accounts .....	33,835,272	20,379,681
Federal income taxes .....	62,306,400	63,204,000
Total costs and expenses .....	<u>\$2,476,025,802</u>	<u>\$2,215,976,773</u>

3. The Company conducts the major part of its operations from leased premises. Substantially all leases will expire during the next 35 years; in the normal course of business, however, leases are renewed or replaced by leases on other properties. Minimum annual rentals at January 28, 1967 amounted to approximately \$39,000,000; rent expense for the year includes rent based on sales.

4. All full-time associates of the Company become eligible to participate in the Penco Retirement Plan after 30 months of service. The Plan consists of two principal parts: a contributory pension fund and a deferred profit-sharing fund. The Company contribution, based on income before Federal income taxes, is allocated first to the pension fund in the amount which, together with participants' contributions and earnings, will fully fund all pension costs, as actuarially determined. The remainder of the Company contribution for each year is distributed to participants' accounts in the profit-sharing fund for the purchase of J. C. Penney Company stock. For the 52 weeks ended January 28, 1967 the amount provided for pensions was \$3,650,000, and the remainder of the \$12,751,776 Company contribution was allocated to the profit-sharing fund.

5. A qualified stock option plan for 300,000 shares of common stock was approved by stockholders in 1965. Options under the plan are exercisable within five years after date of grant to the extent of 40% after the first year and an additional 20% after each succeeding year, except that upon retirement of an optionee at his compulsory retirement date, his entire option becomes exercisable. The option price cannot be less than 100% of the fair market value at date of grant. No options have been exercised under the plan. Following is a summary of shares under option during the 52 weeks ended January 28, 1967:

Option Price	Balance at January 29, 1966	Granted	Expired	Balance at January 28, 1967	Exercisable at January 28, 1967
\$68.00	66,800	—	3,500	63,300	25,320
\$57.625	—	96,850	—	96,850	—
Total	<u>66,800</u>	<u>96,850</u>	<u>3,500</u>	<u>160,150</u>	<u>25,320</u>

A stock option for 280 shares granted in connection with an acquisition in 1962 is exercisable at \$39.02 per share on or before May 16, 1971.

**J. C. PENNEY  
CREDIT  
CORPORATION  
BALANCE SHEET**

ASSETS	January 28 1967	January 29 1966
Current assets		
Customer receivables purchased from J. C. Penney Company, less 5% withheld pending collection .....	\$439,941,357	\$298,672,486
Due from J. C. Penney Company .....	19,997,541	—
Cash .....	1,210,968	1,194,134
Marketable securities, at cost which approximates market .....	—	7,199,100
Prepaid interest and other expenses .....	1,526,079	284,434
Total current assets .....	462,675,945	307,350,154
Leasehold improvements and furniture .....	14,948	14,738
Unamortized debenture discount and expense ..	913,180	954,826
Unamortized organization expense .....	29,343	42,147
	<u>\$463,633,416</u>	<u>\$308,361,865</u>
<b>LIABILITIES</b>		
Current liabilities		
Notes payable .....	\$350,218,437	\$202,619,000
Accrued interest and other liabilities .....	891,569	311,634
Federal income taxes .....	2,782,478	1,413,442
Total current liabilities .....	353,892,484	204,344,076
Long-term debt (note)		
4 <sup>1</sup> / <sub>2</sub> % debentures due July 1, 1984 .....	50,000,000	50,000,000
Equity of J. C. Penney Company		
Common stock, par value \$100		
Authorized, 750,000 shares		
Issued, 500,000 shares .....	50,000,000	50,000,000
Retained earnings at beginning of year .....	4,017,789	1,193,053
Net income for the year .....	5,723,143	2,824,736
	<u>59,740,932</u>	<u>54,017,789</u>
	<u>\$463,633,416</u>	<u>\$308,361,865</u>

Note: In February 1967 the Corporation sold \$50,000,000 principal amount of its 5<sup>3</sup>/<sub>8</sub>% debentures due February 1, 1987.

**ACCOUNTANTS'  
REPORT**

To the Stockholders and the Board of Directors  
J. C. Penney Company:

We have examined the balance sheet of J. C. Penney Company and consolidated subsidiary as of January 28, 1967 and the related statements of income and retained earnings for the 52 weeks then ended. We have also examined the balance sheet of J. C. Penney Credit Corporation as of January 28, 1967. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of J. C. Penney Company at January 28, 1967 and the results of its operations for the 52 weeks then ended, and the financial position of J. C. Penney Credit Corporation at January 28, 1967, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the restatement set forth in note 1 of notes to financial statements. Also, in our opinion, the accompanying statement of source and use of funds for the 52 weeks ended January 28, 1967 presents fairly the information shown therein for J. C. Penney Company and consolidated subsidiary.

New York, N.Y.  
March 22, 1967

PEAT, MARWICK, MITCHELL & CO.  
Certified Public Accountants

# J. C. PENNEY COMPANY

## TEN-YEAR

## FINANCIAL REVIEW

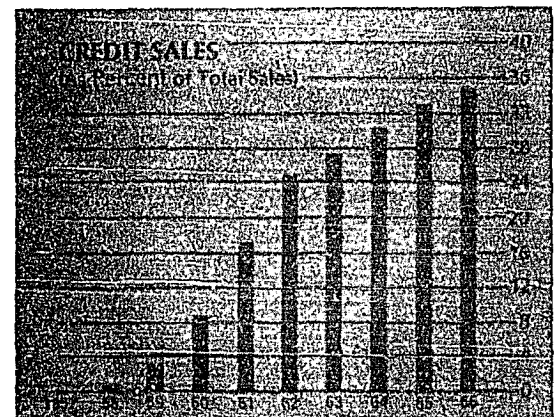
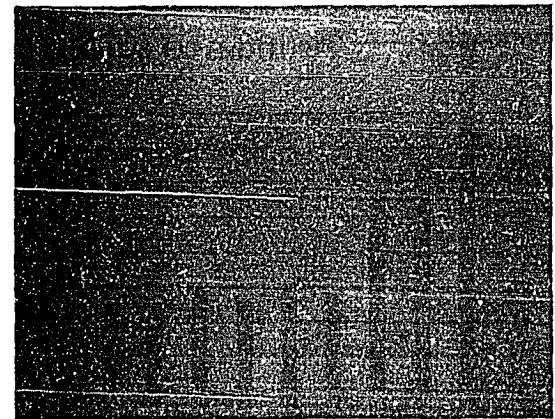
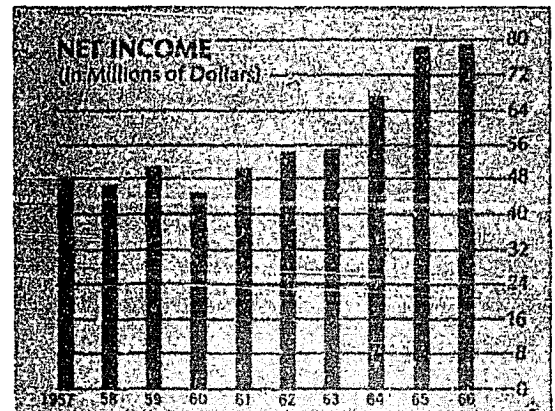
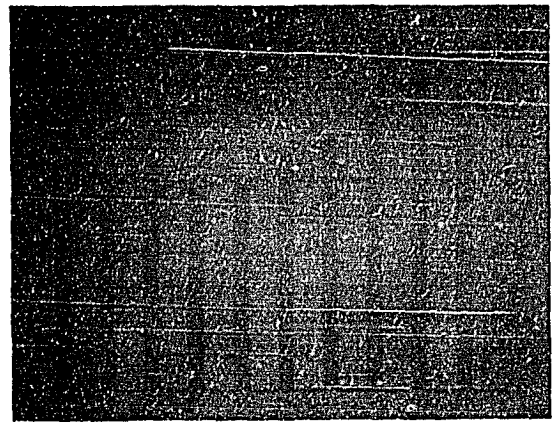
	Year†	1966	1965	1964	1963	1962	1961
<b>RESULTS FOR YEAR</b>							
Sales	\$	2,549,361,688	2,289,209,426	2,079,425,668	1,834,317,527	1,701,332,645	1,553,505,660
Income before Federal taxes							
J. C. Penney Company and consolidated subsidiary	\$	135,642,286	136,436,653	125,495,349	109,899,198	114,404,070	107,638,552
J. C. Penney Credit Corporation	\$	11,003,143	5,424,736	2,378,053	—	—	—
Total	\$	146,645,429	141,861,389‡	127,873,402	109,899,198	114,404,070	107,638,552
Percent of sales	%	5.75	6.20‡	6.15	5.99	6.72	6.93
Net income							
Amount	\$	79,059,029	78,898,254‡	68,271,402	55,292,198	54,804,070	51,738,552
Per share*	\$	3.17	3.16‡	2.74	2.22	2.20	2.10
Percent of sales	%	3.10	3.45‡	3.28	3.01	3.22	3.33
Return on stockholders' equity	%	18.1	19.7	18.7	16.0	17.0	16.8
Dividends							
Amount	\$	43,034,146	43,034,080	37,406,836	37,391,768	37,386,567	37,043,784
Per share*	\$	1.72½	1.72½	1.50	1.50	1.50	1.50
Increase in retained earnings	\$	36,024,883	35,864,174	36,307,597	17,900,430	17,417,503	14,694,768
Depreciation	\$	23,452,558	19,578,803	16,905,155	15,578,393	14,973,076	13,793,559
Capital expenditures	\$	70,838,765	45,824,287	39,835,780	19,966,950	21,926,658	18,195,230
Credit sales percent of total sales	%	35.1	33.1	30.3	27.6	24.7	17.1
<b>END OF YEAR</b>							
Working capital	\$	229,578,296	245,699,939	234,531,761	272,621,504	255,163,738	237,610,793
Customer receivables (net)							
J. C. Penney Company	\$	12,439,346	62,961,474	101,080,971	224,789,049	168,659,516	97,722,383
J. C. Penney Credit Corporation	\$	439,941,357	298,672,486	187,998,214	—	—	—
Merchandise inventories	\$	475,434,563	384,478,234	310,620,911	285,310,602	244,030,829	216,598,949
Stockholders' equity	\$	472,998,767	436,973,884	401,106,091	364,143,440	346,061,271	323,014,262
Number of stockholders		52,524	53,126	51,580	47,863	45,315	41,748
Catalog sales centers		565	458	405	146	21	—
Stores—number in operation		1,661	1,669	1,676	1,680	1,685	1,686
—gross square feet		51,300,000	47,600,000	44,400,000	42,300,000	40,900,000	39,800,000

†Years 1966 and 1965 are the 52-week periods ended on the last Saturday in January of the subsequent year, 1959 through 1964 are fiscal years ended January 31 of the subsequent year, 1958 is the 13-month period ended January 31, 1959; and 1957 is the calendar year.

‡Income before Federal taxes for 1965 excludes gain on sale of headquarters building. This net gain of \$2,840,865 (11 cents per share) is included in net income.

\*Figures based on shares outstanding at each year-end. Prior years adjusted for 3 for 1 split in May, 1960.

1960	1959	1958	1957
1,468,917,982	1,437,489,357	1,409,972,649	1,312,278,407
94,094,095	108,023,734	95,376,831	102,560,891
—	—	—	—
94,094,095	108,023,734	95,376,831	102,560,891
6.40	7.51	6.76	7.82
44,994,095	51,523,734	46,876,831	49,410,891
1.82	2.09	1.90	2.00
3.06	3.58	3.32	3.77
15.0	18.3	17.3	19.3
37,043,784	33,339,405	34,985,796	34,985,796
1.50	1.35	1.42	1.42
7,950,311	18,184,329	11,891,035	14,425,095
12,537,040	11,527,181	11,790,207	10,062,449
20,201,386	15,918,373	16,392,361	12,470,143
8.5	2.8	.3	—
225,409,903	225,271,019	210,246,010	201,936,363
52,208,936	19,393,451	2,658,177	—
—	—	—	—
203,823,435	209,738,361	192,934,812	185,576,375
308,319,494	300,369,182	282,184,854	270,293,818
39,136	34,766	33,997	33,720
—	—	—	—
1,695	1,683	1,687	1,694
37,900,000	35,900,000	34,600,000	33,000,000



## OFFICERS

**William M. Batten**  
Chairman of the Board

**Ray H. Jordan**  
President

**Cecil L. Wright**  
Executive Vice President

**Kenneth S. Axelson**  
Vice President and  
Director of Finance  
and Administration

**William K. Barry**  
Vice President and  
General Merchandise  
Manager—Soft Lines

**Woodrow P. Campbell**  
Vice President and  
Director of Technical  
and Distribution Services

**Oakley S. Evans**  
Vice President and  
Director of Corporate  
Development

**William L. Marshall**  
Vice President and  
Director of Stores

**Lee S. Moore**  
Vice President and  
Sales Manager

**Walter J. Nepp**  
Vice President and  
General Merchandise  
Manager—Hard Lines

**Donald V. Seibert**  
Vice President and  
Director of Catalog  
Sales and Operations

**Frederick R. Seltzer**  
Vice President and  
Director of Personnel

**Arthur Jacobsen**  
Treasurer

**Charles T. Stewart**  
Secretary and General  
Counsel

**Robert L. Adair**  
Controller

**Paul R. Kaltinick**  
Assistant Treasurer

**Albert W. Driver, Jr.**  
Assistant Secretary

**Elting H. Smith**  
Assistant Secretary

**L. Eric Ericson**  
Assistant Controller

**John F. Wood**  
Assistant Controller

## TRANSFER AGENT

Chemical Bank  
New York Trust Company  
20 Pine Street  
New York, New York 10015

## DIRECTORS

**J. C. Penney**

**Kenneth S. Axelson**  
Vice President  
J. C. Penney Company

**Fred A. Bantz**  
Retired Vice President  
and Merchandise Manager  
J. C. Penney Company

**William M. Batten**  
Chairman of the Board  
J. C. Penney Company

**Oakley S. Evans**  
Vice President  
J. C. Penney Company

**Albert W. Hughes**  
Retired President and  
Chairman of the Board  
J. C. Penney Company

**Ray H. Jordan**  
President  
J. C. Penney Company

**William L. Marshall**  
Vice President  
J. C. Penney Company

**Wellington Powell**  
Retired Vice President—  
Marketing, American  
Telephone and Telegraph Co.

**Earl A. Ross**  
Retired Real Estate Manager  
J. C. Penney Company

**Frederick R. Seltzer**  
Vice President  
J. C. Penney Company

**Cecil L. Wright**  
Executive Vice President  
J. C. Penney Company

**Walter B. Wriston**  
Executive Vice President  
First National City Bank

## ANNUAL MEETING

The annual meeting of stockholders will be held at 10 a.m. Tuesday, May 16, 1967, in the West Ballroom, New York Hilton Hotel, 1335 Avenue of the Americas, New York, N.Y. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 6. Your prompt attention to the proxy statement will be greatly appreciated.

## REGISTRAR

The Chase Manhattan Bank, N.A.  
1 Chase Manhattan Plaza  
New York, New York 10015



Kenneth S. Axelson



Fred A. Bantz



William M. Batten



Oakley S. Evans



Albert W. Hughes



Ray H. Jordan



William L. Marshall



J. C. Penney



Wellington Powell



Earl A. Ross



Frederick R. Seltzer

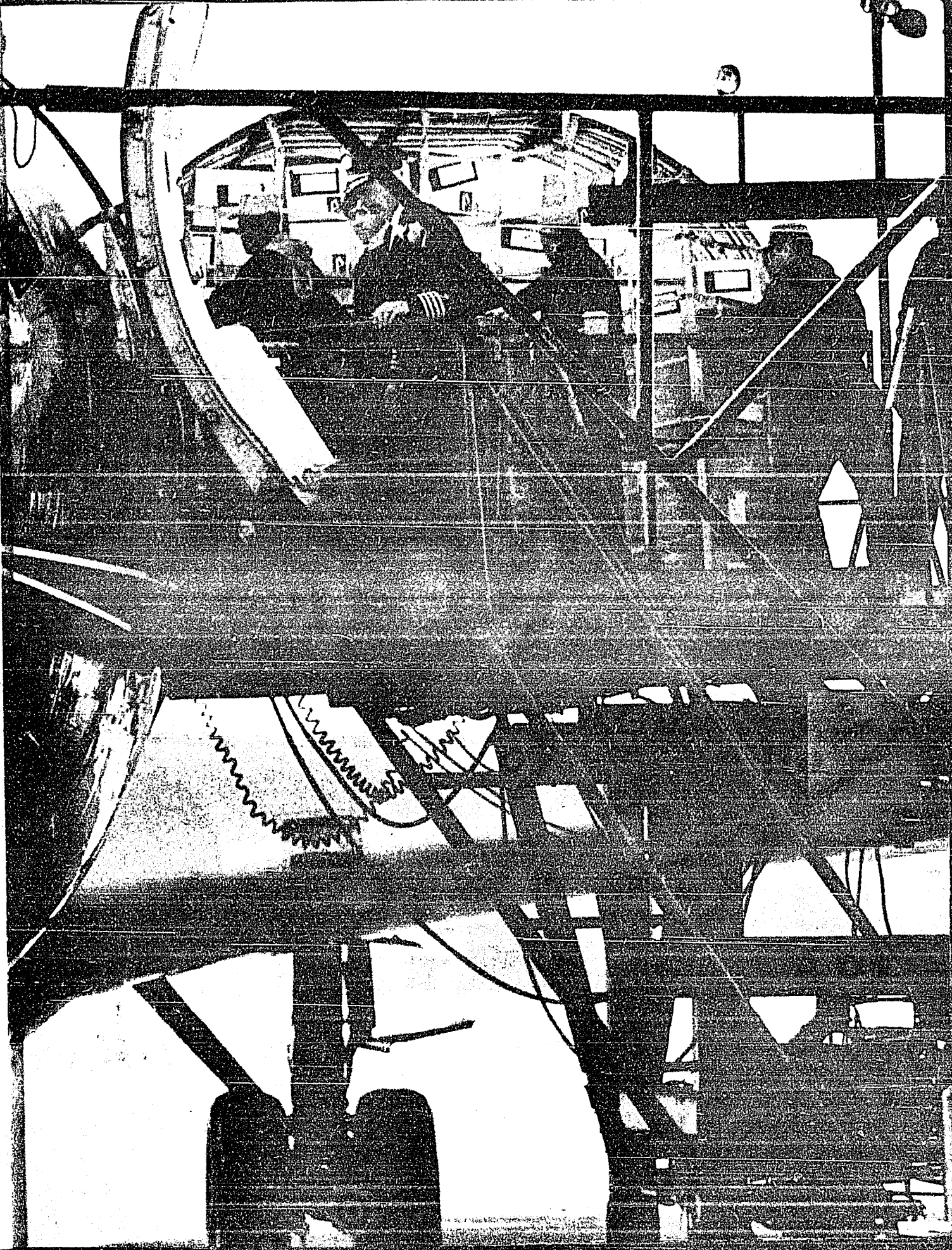


Cecil L. Wright



Walter B. Wriston

*At right, a "break-bulk" air freight shipment from our Milwaukee catalog distribution center is loaded on an airplane at Chicago's O'Hare Airport. Such shipments speed merchandise to key areas where Penney's is "pre-building" catalog markets. There the shipments are broken down for delivery to stores and customers.*



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